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**MANAGING AFFORDABLE HOUSING IN THE INNER-CITY:  
A FRAMEWORK FOR ANALYZING OPERATING EXPENSES**

by

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## **ABSTRACT**

This thesis examined the impact of the inner-city environment on operating expenses for affordable housing developments. The author argued that it is difficult to manage housing in the inner-city due to its unique physical and social problems, and that those problems have a direct impact on operating costs.

A conceptual framework that outlines the various factors that influence operating expenses was developed and then used to analyze three inner-city sites. Data was collected on the management and operations of each site through interviews, and a review of annual operating budgets and audited expenses.

The results identify multiple factors in the inner-city environment that impact the cost of management. Some of the key variables included: the physical configuration of a development, its financial underwriting, the number of tenants and their needs, and the surrounding neighborhood. Among other findings, the size of a development was directly related to the level and type of services which could be provided. This research highlighted the benefit of consolidating the management of small, inner-city sites.

**Thesis Advisor:** Sandra Lambert  
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# CHAPTER ONE

## INTRODUCTION

Despite the cyclical nature of the housing market in this country, one aspect remains constant -- there is a shortage of affordable housing, particularly for low-income households. Over the past several decades this shortage has grown worse due to a number of trends. Most significantly, the supply of low rent housing has decreased at the same time that the number of people in poverty has increased.<sup>1</sup>

Due to the loss of low rent stock, housing prices for the poor have escalated faster than for any other group. To compound matters, beginning with significant cuts in the 1980s, federal support for subsidized housing has been substantially reduced.<sup>2</sup> The growing homeless population is evidence of the shortage, as is the growing waiting list for public housing. The total number of public housing units nationwide is 1.3 million and some estimate the number waiting for an available unit at 500,000. In many cities the list is closed and the typical wait is 2-3 years.<sup>3</sup>

Faced with a diminishing federal role, state and local governments are attempting to fill the gap. Subsidy programs to address both the demand (in the form of rental vouchers) and supply (in the form of development support) are in place, but the need is still great. In 1989, only one-third of poor households received any type of housing assistance from federal, state or local government. At the same time, 75% of those who received no assistance spent over half of their income in rent.<sup>4</sup>

One of the reasons supply has been shrinking is because rents that are affordable to low-income households are not always sufficient to cover basic operating and maintenance costs. When this occurs, the private sector has no economic incentive to maintain low-

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<sup>1</sup>Edward B. Lazere et.al, A Place to Call Home, Center on Budget Priorities, 1991, p.xi.

<sup>2</sup>Ford Foundation, Affordable Housing: The Years Ahead, 1989, p.11.

<sup>3</sup>Arlene Zarembka, The Urban Housing Crisis, 1991, p.2.

<sup>4</sup>Lazere, p.xiii.

rent buildings. Barring some form of subsidy, these units are lost to deterioration and abandonment.<sup>5</sup>

Meeting basic operating and maintenance costs is an ongoing issue even for the owners and managers of subsidized housing. The operating budgets for most subsidized developments are significantly constrained due to rent caps and the margin for dealing with operating cost increases is slim. Much of the literature on affordable housing has focused on the need for, and development of, subsidized housing. Less is written about the challenge of maintaining these resources. With the ongoing shortage of affordable housing in this country, preservation of existing units is of utmost importance. Understanding the costs of operating an affordable housing development is a key part of that task and will be the focus of this study.

Managing affordable housing is an expensive business. The amount of money it costs to run a development varies significantly, as a review of annual operating expenses for approximately 22 properties in one organization's portfolio indicates. The range is between \$3,500 and \$7,000, per unit, per year.<sup>6</sup> By comparison, the average per unit cost to manage market-rate rental housing in and around the Boston metropolitan area typically ranges from \$2, 200 to \$4,800.<sup>7</sup>

Why is it so expensive to manage affordable housing? And why do the per unit expenses vary so significantly? There are many theories and explanations, one of which involves the location of the property. Many affordable housing developments are located in the inner-city and many of those developments, in particular, have very high operating

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<sup>5</sup>Joint Center for Housing Studies of Harvard University, State of the Nation's Housing, 1994, p.17.

<sup>6</sup>Source: The Community Builders, Fiscal Year 1993 operating expenses for 22 developments.

<sup>7</sup>Institute of Real Estate Management, 1992 Income and Expenses Analysis, Conventional Apartments, 1992, p.28.

expenses. The 1992 median per unit operating expense figure for 232 inner-city projects financed by the Massachusetts Housing Finance Agency was \$5,100.<sup>8</sup>

This thesis will focus on the relationship between the conditions of the inner-city and operating expenses for affordable housing developments. The author will argue that the inner-city is different -- that it is more difficult to manage housing there because of its unique problems, and that those problems influence operating expenses. While this research will not empirically prove that it is more expensive to manage in the inner-city, it will attempt to link the challenges that this environment presents with the high operating costs of developments located there.

There are many interpretations and definitions of the term inner-city. For the purposes of this paper, the inner-city refers to areas which are in, or immediately adjacent to, a large metropolitan area. As will be described in the next chapter, these are areas that increasingly suffer from high levels of poverty, crime and deterioration. The assumption is often made that "the people are the problem" and that high operating expenses are related to the socio-economic background of inner-city tenants. Unfortunately, this perception ignores the effects of the surrounding physical environment, as well as the history of economic changes and policies which have led to a concentration of poverty in these areas in the first place. The goal of this research is to move beyond that assumption and explain how the evolution of inner-cities has impacted both the lives of those that reside there, and the job of the property manager.

## **Overview of the Research Process**

The next chapter will begin with a description of the deterioration of the inner-city. There are many theories on how and why these areas have deteriorated and, despite some differences among them, each helps to describe the conditions that exist now. After

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<sup>8</sup>Source: Massachusetts Housing Finance Agency, 1991 median for 232 urban developments.

providing that context, the author will describe the implications of the inner-city situation for affordable housing in general and property management in particular. Drawing on interviews with professionals in the field, the effects of inner-city deterioration will be outlined with respect to challenges for the affordable housing property manager, and the potential impact of those challenges on operating costs.

A framework for analyzing costs was created based on the results of these interviews. It categorizes some of the many variables which influence operating expenses including: physical and financial characteristics of the property such as size, age, configuration of the property, level of rehabilitation and/or new construction, and the subsidy programs under which it has been financed; location of the development which refers to the surrounding neighborhood; tenant mix which involves the number of residents in a development and their income level; and finally, the level and type of services which are provided as part of the property management effort.

This framework provides a way to analyze the many factors which influence operating expenses and hopefully will be useful in understanding how to better estimate and control them. The purpose of this research is to use the framework to relate inner-city conditions to the challenges of affordable housing property management and explain the high costs typically encountered there. The author will accomplish this through additional interviews and an operating expense analysis of three sites which are located in different inner-city areas and managed by the same organization, The Community Builders.

Chapter Three will begin with description of The Community Builders, a non-profit affordable housing developer and property manager which has extensive experience in the inner-city. After a general overview of its portfolio, the chapter will present the data collected on each site.

The objective of the research process was twofold. First, the author wished to gather additional information on the specific factors that impact the operating expenses of inner-city properties by analyzing three specific sites. Second, the author wanted to



explore the reasons for variances in expenses across those sites. Chapter Four will synthesize the information collected and present an analysis and conclusions within the framework set forth in Chapter Two.

Solving the affordable housing crisis in this country will require more than just an increase in the supply of subsidized units. Given the trends that were outlined at the beginning of this chapter, it is essential that the underlying causes of poverty be addressed as well. Unfortunately, it is unlikely that both of these formidable challenges will be met any time soon. In the meantime, the limited resources which are devoted to providing affordable housing must be allocated effectively. Understanding the factors which influence the costs of managing that housing, particularly in an environment like the inner-city where the need is so vital, is a key component of meeting that goal.

## **CHAPTER TWO**

### **DECLINE OF THE INNER-CITY**

One needs only to turn on the evening news to witness the deterioration of America's inner-cities. These areas have become plagued by homelessness, poverty, crime, unemployment and an aging, run-down infrastructure. The problems have become so commonplace that society has almost become desensitized to them. It takes a major upheaval like the Los Angeles riots to re-focus the nation's attention on the worst areas of our cities. Even then, the complexity of these problems makes it difficult to sustain that attention.

Numerous factors have contributed to this deterioration. Over the past several decades housing policies, technological improvements, and employment trends, as well as the decentralized nature of local governance, have all influenced the development of suburban areas at the expense of the inner-city. As suburban areas developed, resources (in the form of residential and commercial tax base) were drawn away from the once-thriving core. Regardless of which factor is considered the impetus, a vicious cycle was set in motion. As resources left, central city areas began to deteriorate and became even less attractive to businesses and residents. The resulting disinvestment has transformed inner-cities into areas with major physical, economic and social problems.

So how exactly has this happened? Why hasn't everyone left the central city for a better life in the suburbs? Why are there concentrations of poor people living in these areas? There are numerous theories of how inner-cities have come to be this way, as well as of what needs to be done to fix them. This section will not address the latter, but rather outline some key explanations of why our inner-cities face such problems and provide a context within which the challenges of managing affordable housing in the inner-city can be discussed. There is no "right answer" and some of the theories emphasize different

reasons for the current situation. Despite this, each helps to paint an overall picture of what is happening in these areas.

In her book Redesigning the American Dream, Dolores Hayden discusses the transformation of the American city following the end of World War Two. Encouraged by federal policies to promote homeownership, many families abandoned the central city and moved to the suburbs where land was plentiful and housing less expensive to own. As people sought to take advantage of no down payment, low monthly-payment Federal Housing Administration mortgages, and the mortgage interest tax deduction, a new phenomenon resulted: suburban sprawl. During the four decades following the war, Hayden states that the U.S. housing stock increased from 34.9 million to 80.4 million units and housing starts became a significant indicator of national economic growth.<sup>9</sup>

Hayden goes on to articulate that the pursuit of the "American Dream" to own a home became a powerful symbol of the "good life". The exodus of the middle-class from the central city to the suburbs had a devastating effect on the environment, and the individuals, that were left behind. The shift of people, and then jobs, to the suburbs left central cities with a diminished tax base and limited resources. As a result, she states, critical issues such as high unemployment and decaying infrastructure plague these areas.

Other factors, besides housing policies, are cited as contributors to the suburbanization trend following World War Two. Transportation improvements made it easier and cheaper for people to live further away from their places of employment, and for firms to locate further away from their suppliers and/or customers. Additionally, technological improvements, specifically in the communication arena, allowed companies locational flexibility. Offices no longer had to be located near the city center as was once

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<sup>9</sup>Dolores Hayden, Redesigning the American Dream, 1984, p.38.

the case. Many firms, for example, were able to ship "back office" functions such as accounting and bookkeeping to the suburbs where office space was less expensive.

In his text on urban economics, Arthur O'Sullivan explains that, in addition to the factors listed above, many of the negative attributes of central cities encouraged households to move to the suburbs. These attributes include: an older and deteriorated housing stock, racial conflict, fiscal problems, crime and poor school systems. Ironically, he goes on to elaborate that the suburbanization trend exacerbated these problems by drawing additional resources away from these needy areas.<sup>10</sup>

An economic model developed by Charles Tiebout and modified by Bruce Hamilton helps to further explain how the suburbanization trend outlined above has impacted the central city and those who reside there. Tiebout's model suggests that, when making location decisions, households sort themselves with respect to demand for local public goods and housing. In other words, people vote with their feet, choosing to reside in the jurisdiction that provides the best combination of goods and services (i.e. education, parks, police and fire protection, road and public building maintenance, trash collection, etc.) for a given tax amount. There are several key assumptions behind the model including freedom for all households to choose the jurisdiction in which they live, and the financing of all local government expenditures with a property tax.<sup>11</sup>

This model accurately describes the homogenous nature of many suburban communities by explaining that households which value the same types of amenities end up locating near one another. It goes on to argue that local jurisdictions are encouraged to compete for residents by searching for a net fiscal surplus, or in other words, appealing to residents who bring in more tax revenue than they use in services. By doing this, municipalities can maximize the value of the taxes collected.

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<sup>10</sup>Arthur O'Sullivan, Urban Economics, 2nd Edition, 1993, p.273.

<sup>11</sup>Ibid, pp.520-526.

Local governments reach this goal through fiscal zoning, an example of which is restricting residential land development to single family homes on large lots. By zoning for larger homes, values are also increased and property tax revenues, which are calculated as a percentage of property value, are also increased. At the same time, fewer services are required because of the lower density of residents in the area. By preventing high-intensity uses (such as multi-family housing), which tend to demand more in services than they bring in revenue, local jurisdictions keep expenditures down. Schools, for example, are funded through local taxes. If demand for that service is limited through low-density, high-revenue land uses, more can be spent per student and, some would argue, a higher quality education can be provided.

The key point of the Tiebout model is that it emphasizes the ability of local jurisdictions to impose land use controls to influence revenues and expenditures. Most often these controls have inequitable effects. By imposing such controls, the assumption that all households have the freedom to choose any jurisdiction in which to live is weakened. Zoning for large, single-family homes, for example, prevents lower-income families from moving into these areas. They may not be able to afford to purchase a home on a large lot and no lower-cost housing options exist in that community. The areas in which they can afford to live are typically central cities, or areas in close proximity to central cities, which do offer low-cost housing.

Central cities are at a disadvantage in the competitive situation Tiebout describes because they tend to be larger than many suburban jurisdictions and already have existing problems to deal with. When they begin to lose residents and firms to suburban locations, the tax base is lowered. Meanwhile they have a higher need for government expenditures due to the aging infrastructure and higher concentration of poor residents who demand intensive services. If central cities raise taxes to deal with this situation, property values fall and prompt further exodus to the suburbs. A vicious cycle is created and it is difficult for these areas to survive without financial assistance from other levels of government.

Not all of the theories on urban decay focus solely on economic factors such as housing policies, employment shifts and fiscal competition between suburban and urban areas. Race and social factors are also identified as a key part of the exclusionary zoning process which exacerbates these problems as Anthony Downs explains:

[T]he nature and direction of urban development in the United States are affected mainly by the desire of many householders to segregate themselves from those they regard as socially, economically, or ethnically different. This desire expresses itself in the establishment of many separate suburban communities politically dominated by middle-and upper-income households, the maintenance of exclusionary zoning laws and building codes.<sup>12</sup>

William Goldsmith and Edward Blakely make a similar statement in their book, Separate Societies:

[S]uburban growth has been the flip side of the city's decline and decay...White flight (and sometimes minority middle-class flight) has most often left impoverished residents economically stranded, socially separated, and physically locked in isolation, with little political power and few public resources.<sup>13</sup>

The theories described thus far suggest several explanations for inner-city deterioration ranging from changes in federal housing policy to technological change to economically or racially motivated exclusionary regulation. Regardless of whether one subscribes to just one, or a combination of the above, a common theme in all is that suburban development has had a negative impact on the inner-city. In Opening Up the Suburbs, Anthony Downs succinctly summarizes the impact this development has had on many metropolitan areas. He states that this trend has forced those with the lowest incomes to live together in the worst housing, creating "crisis ghettos" where entire

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<sup>12</sup>Anthony Downs, Neighborhoods and Urban Development, 1981, p.vii

<sup>13</sup>William Goldsmith & Edward Blakely, Separate Societies - Poverty and Inequality in U.S. Cities, 1992, p.137.

neighborhoods are dominated by the conditions of poverty -- areas that are marked by high rates of crime, vandalism, broken families, mental illness, delinquency and drug addiction. While these areas generate the highest public service costs due to the older infrastructure and needy residents, their tax bases are steadily declining. Inner-cities must try to combat poor quality schools, high crime rates, high welfare support costs, and high fire incidence rates, yet at the same time property values are going down and there are very few resources upon which to draw.<sup>14</sup>

The relationship of suburban development to the problems of the inner-city is not always immediately recognized and the literature cited above helps explain how it has contributed to the urban decay that now exists. While no one can blame individuals for seeking a better life in the suburbs, the nature and pattern of that development has had a devastating impact on the areas and individuals left behind. As several of the theories indicate, not everyone has had an opportunity to move to the suburbs. Barriers to entry exist, particularly in the form of low-cost housing options. Those who cannot afford more expensive housing are forced to remain in cities and compete for whatever low cost opportunities remain. Meanwhile, the decline of resources in inner-city areas has created a physical and economic environment in which it has become increasingly difficult to live. To compound matters, a poor education system and the lack of employment opportunities make it difficult to obtain the skills and resources needed to escape it.

## **IMPLICATIONS FOR AFFORDABLE HOUSING MANAGEMENT**

This situation described above has created an enormous demand for low cost housing in the inner-city. Because of the way suburbs have developed, cities are one of the only places to find low-cost housing. Yet, as mentioned in the introduction to this

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<sup>14</sup>Anthony Downs, Opening Up the Suburbs, 1973, pp.9-10.

paper, the supply of low cost housing has been rapidly dwindling as competition for the units that do exist drives prices up. Without some form of subsidy, rents on these units can consume over 50% of a tenant's income. Such a high housing cost burden can place a renter at risk of homelessness in the event of a sudden disruption of income or an unexpected large expense.

Funds for subsidized housing are limited, not only for its development but for its long-term management. For the subsidized units that do exist, the limited rents often just barely cover expenses. The challenge of managing low-income housing is difficult in any environment but especially the inner-city. The trends that have been described have led to a physical deterioration, and a concentration of poverty in these neighborhoods, making it a stressful environment for both tenants and property managers alike.

## **Framework**

In order to explore the impact of this environment on affordable housing operating expenses, the author created a framework. Four categories which influence operating expenses have been identified including: the physical and financial characteristics of the specific development; the location; the tenant mix; and the level and type of services provided. The following descriptions elaborate on each category with a focus on the inner-city conditions which impact property management and are likely to increase operating costs. The information that is presented is based on the experience of five management professionals in the affordable housing field.<sup>15</sup>

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<sup>15</sup>The author gathered information for the framework from the following individuals: Linda Hamilton, ; Property Manager, Winn Management, Interview on May 10, 1994; Diana Kelly, Vice President, Maloney Properties, Interview on May 17, 1994; Robert Pickette, President, Corcoran Management Company, Interview on May 16, 1994; Judy Weber, Director of Property Management, The Community Builders, Interview on May 5, 1994. William Wollinger, President, Winn Management, Interview on May 17, 1994.



### Physical/Financial

The physical and financial characteristics of a building which impact its costs of operation include the size, age and configuration as well as its underwriting, and the level of rehabilitation and/or new construction.

Due to the deterioration and lack of investment in central city areas, inner-city developments are often older buildings which have not always been well maintained. Often this means the systems, such as heating and plumbing, are less efficient than one might find in a newer building and this adds to the costs of its operation.

The size and configuration of a building are important factors because both affect security and maintenance, as well as administrative staff time costs for the property. Due to the existing level of development in the inner-city, it is difficult to assemble contiguous parcels for affordable housing rehabilitation and development. Therefore, inner-city properties tend to be smaller and located on scattered sites. Smaller projects often cannot generate the management fees necessary to manage a regular staff presence. Management of these projects must be combined with sites located in the nearby vicinity which means a manager is not always present on each site to monitor its needs. Furthermore, extra time is required to travel between sites. Most significantly, it is more difficult, from a maintenance and security point of view, to operate a property which does not have a well-defined perimeter. There are more entries and exits to maintain and a greater possibility that factors outside the development, such as criminal activity, will influence its cost of management.

With respect to underwriting, all affordable housing developments face operating cost constraints. Rents are only marginally increased annually or, increasingly, are capped in order to remain affordable. Operating subsidies are often dictated by the amount of money spent in the development process. The initial financing structure influences the amount of funds that are available for the ongoing operation of the property and often these funds tie the hands of the property manager. Given the limited amount of subsidy

money available, an inner-city property that is older and requires a greater level of rehabilitation may have less money left over for the ongoing maintenance when it is completed.

### Location

Location also affects the operation of an affordable housing development. In the inner-city, one is more likely to find abandoned buildings and vacant lots which attract criminal activity -- such as drug dealing, gang activity and graffiti. These pose a management challenge for affordable housing developments located nearby and affect both security and maintenance costs. It is also difficult to attract tenants if the building next door has become an eyesore, and this could affect the vacancy rate.

In addition to contiguous sites, if the infrastructure of the inner-city is not well maintained it will impact the property manager's job by creating more maintenance work in and around the site. Due to the limited tax base, or the absence of a wealthy political constituency, municipal governments may not meet the needs of these area. For these reasons, trash collection, road repair, street lighting and other basic services are likely to be less available. As mentioned earlier, if municipalities raise taxes to provide these services, they risk further exodus of businesses and property owners from the area.

### Tenant Mix

The tenant mix also influences the inner-city property management effort. Within this category several key factors have been identified which include: the number of residents in a development - or density, and their income level.

The Community Builders defines density as the total number of bedrooms in a development divided by the total number of units. Typically, there is an average of 1.5 people per bedroom in a rental housing unit. Developments with three and four bedrooms units, for example, will have a higher density of people than those with one and two

bedroom units. Due to the limited amount of affordable, large unit (more than two-bedroom) multi-family rental properties located outside the inner-city, often the rental properties that are located in these areas have a high density of residents because larger bedroom apartments are available. This places a greater pressure on the physical structure which also impacts operating costs.

The income level of the tenant is also an important factor. Subsidized tenants have very low incomes, sometimes below 50% of the median income. Many are unemployed and survive on fixed incomes from social security or welfare payments. These tenants not only have social service needs, but are also likely to be around the property in both the day and the evening, which impacts the cost of operation.

### Services

Finally, the level and type of services provided impacts the operating expenses of a property. As mentioned, due to the tenant profile described above, there is a need for additional services above and beyond the basics such as rent collection and maintenance. These services range from helping a tenant deal with a utility company to providing child care on-site, and represent an added cost for the manager.

Additionally, it can be argued that factors within the three categories which have already been described -- physical/financial, location, and tenant mix -- are largely outside of the manager's sphere of control. In general the development and management of affordable housing are handled separately. Some firms though, including The Community Builders, are involved in both developing and managing housing. The property managers at The Community Builders attempt to work with the company's development division in order to anticipate and deal with some of the variables that will add to the cost of operation once a property is built. They also, however, manage properties that have been developed by other organizations and, in those instances, are not always able to influence the development process.

To the extent the physical/financial, location and tenant-related factors which have been identified cannot be controlled, each impacts the amount of time and money that is available for the provision of services. It can be argued that, because the inner-city places extraordinary demands on managers, it may be more difficult and take longer to accomplish the basic services. In other words, repairs may not be completed as quickly as they would elsewhere. Similarly, administrative duties may take longer to perform due to the other demands on staff time. Ultimately, this has an ongoing impact on both the expenses and long-term viability of the property.

In conclusion, a case can be made that the challenges posed by the inner-city environment contribute to the high costs of managing rental property there. In particular, the physical deterioration and concentration of poverty are key factors which influence the property management effort and are reflected in operating costs. A common theme which developed from the interviews upon which this framework was based, and which reinforces this argument, was the challenge of finding capable and competent people to manage inner-city sites.

Due to the transformation that was described at the beginning of this chapter, the role of the inner-city manager has changed. It is no longer merely a facilities management role. Individuals must deal with the complex challenges of the physical environment as well as with the social needs of the tenant population. These properties require a lot of energy and commitment and one must really have a desire to be there. Often individuals equipped to handle this task can find other, more financially rewarding, and less emotionally draining, employment opportunities.

### **Background on Operating Expenses**

This study will focus on the operation, and specific expenses, of three affordable housing properties in the inner-city environment. In order to introduce the references that

come later, the following paragraphs briefly outline the key expenses involved in the ongoing upkeep of a rental property.

In general, operating expenses fall into eight categories which include: *renting, administration, utilities, maintenance, property taxes & insurance, financial, resident services, and replacement reserves.*

*Renting* expenses include the costs of advertising and marketing units which are vacant due to normal turnover and/or eviction. *Administration* includes costs such as site management staff salaries, supplies, the fee of the management agent which covers overhead, accounting and annual audit fees, legal and telephone expenses. The *utilities* category refers to the costs of heating, cooling and lighting common areas of the development, and in some instances the entire development. (In most developments tenants pay their own electricity but in some heat is paid for by the owner through the operating expense budget.) Water and sewer fees are also included in the utilities category.

*Maintenance* is the largest category of expenses and includes everything from the janitorial payroll and supplies, to repair staff and supplies, snow removal, and other items associated with the general upkeep of the individual units and overall property. *Property taxes & insurance* are standard expenses for any building, the level of expense is typically dictated by the location and type of property. *Financial* expenses include bank and mortgage service fees. (Debt service is not considered part of a rental property's operating expense.)

*Resident services* include items which are above and beyond the basic services typically provided in any rental housing environment. Because the population they serve is low-income, property managers of subsidized housing face a tenant population with needs above and beyond those of a market-rate tenant.

One way affordable housing property managers can meet tenant needs is through the provision of resident services. Such services might not be strictly necessary for the

ongoing operation of the property, but may be indirectly related to its success. Employment opportunities for many low-income tenants are often limited by a lack of education or skills. Furthermore, low-income households are often single parent families where the availability of child care is a necessary prerequisite to obtaining employment. Examples of resident services to meet these needs include budget counseling, GED (general equivalency diploma) classes, day care, and youth activities.

Due to their economic situation, there is a higher likelihood that tenants in affordable housing may have difficulty paying rent on time. This could happen due to circumstances such as job loss, or simply because they are stretching to meet their family's basic needs with a very limited income. By helping tenants in this way, managers are not only improving their quality of life, but ensuring they are more dependable rent-payers. By reducing costs associated with turnover, loss of rent and/or eviction, these services also contribute to the long-term financial viability of the development.

The final category of operating expenses, *replacement reserves* is an escrow account in which money is set aside for large replacement needs anticipated in the future. By setting a little money aside each year, such demands (like a new roof, appliances or carpeting) will not negatively impact the day-to-day budget for the property .

## **Methodology**

In order to test the validity of the framework that has been created, and gather additional data on the location-related factors which influence operating costs, the author selected three inner-city sites for analysis. In addition to the four categories which have been identified, it can be argued that another variable that influences operating expenses for a property is the approach of the management agent. Given the scope and time frame of this study, the author decided to hold this variable constant and examine three sites managed by the same organization; The Community Builders. The sites include: the Phoenix Apartments, located in Holyoke in Western Massachusetts; the Langham Court

Cooperative, located in the South End neighborhood of Boston; and the Salem Point Cooperative, located in Salem, just north of Boston.

The sites share several key characteristics. They are similar in size, averaging 75 units each. All have been completely rehabilitated or newly constructed within the past three years. They share common financing programs including the Federal Low Income Housing Tax Credit Program. All are multi-family properties with a relatively high density of tenants although there is a range. The Community Builders provides a similar program of management services at each site. Additionally, The Community Builders served as the development consultant during the rehabilitation or new construction process for each property.

There are some differences among the sites selected. Most importantly, they are located in three different inner-city neighborhoods. (The author attempted to find a suburban site to contrast with these but no comparable site was available within The Community Builders portfolio.) Two of the three sites consist of scattered buildings that were rehabilitated while one is a new construction project located on a single parcel. Two of the properties are cooperatives which means the residents have an ownership stake in the development and participate in its management. One of the properties also has annual costs that are approximately \$1,300 higher per unit than the other two.

The following chart summarizes some of the basic information about each site:

Development	<b>PHOENIX</b>	<b>LANGHAM CT.</b>	<b>SALEM POINT</b>
Location	South Holyoke	Boston	Salem
# of Units	66	84	77
# of Bedrooms	152	138	183
Density	2.30	1.64	2.38
Form of Tenure	Rental	Cooperative	Cooperative
Construction	New & Rehabilitation	New	Rehabilitation
Configuration	Scattered Site	Contiguous	Scattered Site
Annual Expenses	\$ 5,885 per unit	\$4,581 per unit	\$ 4,504 per unit

Finally, The Community Builders provided recommendations and advice to the author regarding the selection of sites. Although the operating costs for these properties are not the highest of the inner-city portion of The Community Builder's portfolio, they still represent a challenge for the organization. Furthermore, according to the director of property management, these sites best reflect the type of properties affordable housing managers increasingly deal with in the inner-city.

The next chapter will begin with background information on The Community Builders and its portfolio, followed by a description of each site. The site descriptions include data on the history and management of each site gathered primarily from interviews with the site managers, as well as from a review of relevant documents including the management plan, operating budget and actual expenses.

In order to gain a broader perspective, the author also conducted interviews with the assistant directors at The Community Builders who are responsible for overseeing each site, and individuals at the Massachusetts Housing Finance Agency, which is a funder for two of the developments.



## **CHAPTER THREE**

### **THE COMMUNITY BUILDERS**

The Community Builders (TCB) began in 1964 as a two-person, community-based development corporation renovating housing in Boston's South End. Building on a small but successful start, TCB expanded its development activities and today the organization's staff numbers over 240 with offices in Boston, Springfield, Providence, New Haven and Philadelphia. The Community Builders has evolved into a consulting organization, providing technical assistance and acting as a financial intermediary for other non-profit organizations developing affordable housing. In addition, it has built a sizable property management division which is currently responsible for over 3,500 units of subsidized housing in and around New England.

Although TCB primarily serves non-profits, its clients also include cities and towns, public housing authorities, planning departments and housing agencies. All share a commitment to improve neighborhoods by addressing affordable housing needs. Some of the development services provided include: site location and acquisition; assembling the development team including architects and contractors; identifying funding sources; preparing financing applications; securing permits; preparing development budgets; and managing costs.

The Community Builders' philosophy is to complement the strengths of the organizations it serves. TCB accomplishes this by tailoring its involvement to the specific client's needs and emphasizing a team approach to the complex task of non-profit development. One of the areas in which TCB has developed significant expertise is syndication. Capitalizing on the federal government's provision of tax credits for low-income housing investments, TCB has created over 40 limited partnerships which provide financing for the development projects of the non-profit sponsors it works for.

Due to its size and range of activities, TCB occupies a unique market position within its geographic area and, some might say, within the affordable housing industry. While there are many other firms that specialize in non-profit development, technical assistance, and affordable housing property management, none combine all these functions and perform them at the capacity level displayed by TCB. The management division is one of the largest residential management agents in New England and the only non-profit of its size.

### **Property Management Division**

As a property manager, TCB emphasizes service delivery at the site level. This decentralized philosophy is evidenced by the fact that most of the property management division employees work on-site. Supervisory, support and accounting staff at the central office number fewer than 20 and include a director, an associate director, and five assistant directors who jointly oversee the 40-plus properties in the management portfolio. These staff members spend a significant portion of their time in the field, visiting each of the sites for which they are responsible. The remainder of the division's 200 employees work as administrative and maintenance staff on-site.

This staffing structure allows the maximum amount of resources to be dedicated to the maintenance and upkeep of the actual site, a prime focus of the organization. TCB believes that attention to the upkeep of the site is essential because it increases occupancy, reduces turnovers, and ultimately reduces costs. The management of the site is most clearly reflected in its outward appearance and, consistent with other areas of the business, TCB has developed a reputation for meeting very high standards in this area.

TCB exclusively manages properties owned by non-profits. These organizations often have varying objectives for the scope of management services to be provided. Some would like TCB to provide a comprehensive range of services, others prefer to provide some services (usually resident-related) themselves and contract with TCB for the basics.

TCB also provides technical assistance and recently established a management support center to assist community development corporations start up or enhance their property management operations. TCB stresses flexibility, creativity and innovation in its approach to property management and adapts its role depending on the needs of the organizations it is serving.

One of the strengths of the property management division is its working relationship with the development division of the organization. Often, the same groups who solicit technical assistance from TCB in the development process, contract with TCB for management services when the construction or rehabilitation of their site has been completed. Communication between the management and development sides of the business early in the rehabilitation or new construction process influences property management over the long-term.

The most important contribution the property management division makes during the development process is helping to establish the operating budget. Additionally, they provide important input regarding security systems, keying locks and/or materials which will stand up to the stresses and strains of the particular environment. These suggestions influence the ongoing operations and, by providing this input prior to completion of the project, the operating expenses for the property can sometimes be lowered.

In addition to this type of input, the property management division is also able to take advantage of early access to the sites it will ultimately manage. An assistant director of property management provided an example of this type of communication. During the construction of one of the newer properties in TCB's portfolio, the developer installed several complicated utility and security systems. Because TCB served as the development consultant to the project, the management division sent a member of the maintenance staff to the site prior to occupancy. The staff member toured the site and received detailed instructions from the subcontractors about operating and maintaining the systems. In

addition, TCB videotaped instructions for the benefit of future maintenance staff.<sup>16</sup> This type of early access to the property assists the managers when they ultimately assume responsibility for the property.

This example also illustrates another focus of the property management division: staff training. All of the property managers for individual sites complete initial training sessions as well as ongoing training. Site managers sometimes spend up to 5 days a month at the central office or other locations participating in training seminars.<sup>17</sup> This emphasis on training and continued education extends beyond the organization as well. Several of the senior staff members teach at various property management seminars in the Boston area.

Another key component of the TCB management philosophy is creating a working partnership with the residents of its developments. In addition to soliciting input and encouraging dialogue with residents about the operation of the property, TCB often provides or coordinates social service programs.

TCB describes its range of services in two categories: standard and resident focused. The standard services are those which are required in order to keep the property operating financially and physically and include marketing units, collecting rent and maintaining the site. Resident services involve services above and beyond the basics, such as youth activities and/or bringing health services on-site, which help improve the overall quality of life for their low-income residents and ultimately contribute to the success of the development. TCB emphasizes its knowledge of, and relationships with, various community groups in the areas where it operates, and leverages these resources. If TCB is not able to provide a service, due to operating budget constraints, often it can provide space on-site for another group to do so.

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<sup>16</sup>Interview with Elaine Quinn, Assistant Director, The Community Builders, July 18, 1994.

<sup>17</sup>Interview with Elaine Fletcher, Site Manager, The Community Builders, July 7, 1994

TCB also distinguishes itself in the way it provides resident services. Often management companies choose to separate the provision of more basic property management services and resident services. Although it may sometimes present a conflict to act as social service provider as well as a rent collection agent and rules enforcer, TCB chooses to integrate these functions. The director of property management feels it makes more sense to deal with the physical (i.e., maintaining the property) and human (i.e., assisting residents) aspects of managing the development in a comprehensive manner, rather than try to compartmentalize the approach.

### **Portfolio Overview**

TCB's management portfolio extends across New England. When identifying properties for management, a major consideration is whether the property has a non-profit sponsor. Beyond that, the organization attempts to manage properties which are large enough to support an on-site staff presence. Because low-income housing developments are often smaller than conventional developments, one of the ways TCB does this is to consolidate the management of properties which are located on contiguous sites, or relatively near each other. It is easier to do this if the properties are owned by the same sponsor but TCB has been able to consolidate management of separately owned developments.

TCB's non-profit status contributes to its ability to manage smaller projects. Instead of meeting a required profit margin, TCB is able to funnel any extra operating revenue back into the property. Almost half, or approximately twenty, of the developments TCB manages are projects of 50 units or less. Another fourteen are between 50 and 100 units. The remaining ten are over 100 units.

The Community Builders management portfolio includes the following breakdown of housing types: 53% family rental housing; 12% cooperative housing for families and elderly; 25% elderly rental housing, and 12% single room occupancy housing.

The units are primarily located in inner-city/urban locations which TCB defines as in, or adjacent to, a large metropolitan area. Twelve percent of the total portfolio is located in suburban or rural areas.

Approximately 70% of the tenants living in TCB-managed units qualify as low-income, with earnings below 60% of the median household income for the area in which the respective development is located. Sixteen percent of the portfolio units house moderate-income tenants, whose incomes are below 80% of an area median. Although all of the properties TCB manages have some subsidy, some are mixed-income developments. Approximately 14% of the tenants in the total TCB portfolio pay market-rate rents.

Based on a review of 1993 operating expenses for 22 properties in the portfolio, TCB operating costs ranged from \$3,400 per unit to \$7,151 per unit. These properties included a mix of both elderly and multi-family developments and, to the extent possible, a mix of inner-city and suburban locations.

With respect to the number of people housed in a development, the range of operating costs differed. As mentioned in Chapter Two, density may be one of the factors that influence operating expenses of a development. Due to the prevalence of other factors that affect operating costs, the density calculation cannot be used independently to draw conclusions about costs. It does, however, help to illustrate the difference between elderly and family developments. The lower density elderly developments in TCB's portfolio had operating expenses that ranged from \$3,400 to \$5,180. Operating expenses for the family developments, which were up to three times as dense as the elderly developments, ranged from \$4,500-\$7,151.

Over 80% of the TCB portfolio was located in inner-city/urban areas limiting the number of suburban properties available for analysis. The analysis included three suburban/rural multi-family sites, all of which had costs that hovered around \$5,700 per unit.

The remainder of the chapter will describe three specific sites in the TCB portfolio that were analyzed in detail. Within the description of each site, information is organized in four sections. First, a history of each site will be presented. This will be followed by a more detailed description of its physical, financial, location and tenant characteristics. The third section will present information gathered from interviews with site managers and actual visits on the management and operations of the property. Finally, the fourth section will present the site's operating expenses. An analysis of the data presented will follow in Chapter Four.

## **PHOENIX APARTMENTS, HOLYOKE, MASSACHUSETTS**

### **History**

The Community Builders first came to the South Holyoke neighborhood in 1986 to manage two housing developments, South Holyoke Housing and New Hope Housing, jointly owned by Nueva Esperanza, a local community development corporation, and the Hamden/Hampshire Housing Partnership (HAP), a non-profit organization which funds low-income housing. These organizations had made a commitment to improve the South Holyoke neighborhood and began by renovating housing.

Nueva Esperanza and HAP rehabilitated both the South Holyoke and New Hope properties between 1987 and 1988. The Community Builders served as both the development consultant and management agent during the rehabilitation process. Based on its successful experience with these properties, Nueva Esperanza and HAP then began to purchase the five properties and two vacant lots that now make up the Phoenix development. Again, The Community Builders served as both development consultant and management agent.

Prior to rehabilitation, the Phoenix properties consisted of 37 rental housing units located in five buildings. Due to the poor state of the buildings when purchased, and

attrition during the pre-rehabilitation stage, only seven families remained to be relocated during the rehabilitation process. TCB moved households to available units in the South Holyoke or New Hope developments or to conventional housing in the neighborhood.

Equity financing for the project came from the Federal Low Income Housing Tax Credit Program. In addition, interest reduction subsidies were provided by the State Housing Assistance for Rental Production (SHARP) program and the Rental Development Action Loan (RDAL) program, administered by the Massachusetts Housing Finance Agency and the Executive Office of Communities and Development.

The owners completely rehabilitated five buildings and built two new structures on vacant lots. The five buildings received a "gut" rehabilitation which means everything, including the layout of some of the apartments, was redesigned and replaced. In addition to a complete refurbishment of the units, renovations to the site included converting a commercial unit into a community room; building a playground; and landscaping which included adding grass, a garden area and fences. A small parking lot was also constructed adjacent to one of the two new structures. Construction began in 1991 and was completed in the spring and summer of 1992. The development was fully leased by the end of 1992.

### **Site Description**

The South Holyoke neighborhood appeared somewhat desolate. Although there were numerous apartment buildings in the area, the street activity was minimal. There were a number of abandoned buildings and vacant lots. Aside from a supermarket down the road and a few scattered convenience stores, there was little commercial activity in close proximity to the development.

The assistant director responsible for this site suggested that this neighborhood was different from Salem and Boston because South Holyoke was not likely to gentrify. It had always been a working class neighborhood and would probably never transform



economically. She suggested the other two neighborhoods might gentrify because of their proximity to upper-income areas.

The 66 units of the Phoenix development included six one-bedroom apartments, 38 two-bedroom apartments, 18 three-bedroom apartments, and four four-bedroom apartments. The units were located in seven buildings and scattered across four blocks. There were several common areas including a small playground and a community room used by both residents and neighborhood organizations. Residents could park on streets surrounding the development or in a parking lot adjacent to one of the new buildings. Some buildings contained laundry facilities.

The tenant population was almost 100% Latino and mostly Puerto Rican reflecting the makeup of the surrounding neighborhood. All of units were reserved for tenants of either low or moderate income which meant that the combined income for a household could not exceed 50% or 60% of the area's median income, respectively. According to the Executive Office of Communities and Development, the median income for Holyoke, considered part of the Springfield metropolitan area, was \$39,600<sup>18</sup>. This meant that a family of four could earn no more than \$23,760 annually to live in these units.

In addition to the project-based subsidies that enabled the units to rent for below-market-rates, some of the tenants brought additional subsidies, in the form of rental certificates, to the property. Approximately 18 of the units were filled with residents who had Section 8 subsidies. These certificates allow a household to pay 30% of its income in rent, and the federal government makes up the difference. The federal Department of Housing and Urban Development sets guidelines based on the local market to calculate rents for certificate holders.

For non-certificate holders, rents depend on the income classification of the resident. A one bedroom unit ranged from \$328-\$402, the two-bedroom units rented for

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<sup>18</sup>Source: Executive Office of Communities and Development.

between \$397 and \$486, and a four-bedroom unit ranged from \$515-\$629. Based on the qualifying income limits, these rents reflected a housing expenditure of approximately 27% of income. If a tenant's income was below the income limit, and for many this was the case, these rents reflected a much higher percentage of income.

## **Management & Operations**

Consistent with its management approach to smaller sites, The Community Builders consolidated the management of all three of the Holyoke developments owned by Nueva Esperanza and HAP. Including the Phoenix, this represented a combined total of 146 units. Although the developments were all managed out of the same office, TCB tracked revenues and expenses for each independently. The full time management staff included a site manager, an assistant manager, a maintenance superintendent, a maintenance person and two janitors.

Pursuant to its standard management agreement, TCB provided comprehensive property management services at the Phoenix site including (but not limited to): marketing and renting the units; collecting and enforcing the rents; maintaining a wait list, verifying incomes and fulfilling all reporting obligations to the appropriate funding agencies; ensuring proper maintenance, security and repairs; and assisting residents. The following discussion elaborates on the actual operations at this site within the context of these responsibilities.

### **Marketing and Renting**

TCB marketed and rented the units primarily through advertisements in local newspapers, particularly Spanish language newspapers because of the population served. According to the site manager, the fact that the units had been recently renovated helped to attract residents. The dilapidated and abandoned buildings surrounding the site did however, make it difficult to rent even a well-maintained unit.

The assistant site manager stated that the tenant population was very mobile, and local landlords typically experienced high rates of turnover. This was due in part to the fact that there was a high vacancy rate in western Massachusetts. Low-income tenants, especially those with rental certificates, had other housing choices. Many tenants, particularly those with young children, preferred to live in duplexes with washer-dryer hookups.

The Phoenix, however, actually had a lower turnover rate than its sister properties for two reasons. The project-based subsidies allowed it to offer some of the lowest rents to those without rental certificates. In addition, the development paid for heat and hot water charges. The assistant site manager explained that low-income tenants without a rental certificate were unlikely to find many comparable options and therefore the turnover rate was lower and the waiting list long for these units.

### Rent Collection

Site and assistant managers also collected and enforced the payment of rent. The assistant manager indicated that rent collection was one of the most challenging aspects of her job. Many of the tenants lived on fixed incomes, such as welfare. When tenants could not cover such basic needs as food and clothing, they were not always able to set aside enough for a rental payment. Additionally, tenants sometimes moved out without notice. Typically this occurred because the tenant was behind on the rent. The property lost both the rental payment and the rent from a new tenant since without notice the manager could not immediately prepare the unit for another tenant.

### Reporting Requirements

The site manager mentioned that the administrative requirements of subsidized housing were much more burdensome than her past experience managing conventional housing. In addition to the duties listed above, the site and assistant managers had to keep

up with the requirements of the funding agencies which subsidized the development. Managers must maintain waiting lists of income-eligible tenants and the lists require periodic updating and recertification. Those administrative tasks required a separate effort for each development.

### Maintenance

The staff spent the majority of its time on maintenance work. Both TCB and the property owners placed a high priority on maintenance, a difficult task on a scattered-site property. For example, even though TCB's staff removed trash from its buildings, lack of maintenance of the surrounding buildings meant that extra trash wound up on TCB's properties. According to the site manager, often neighbors dumped their garbage in the dumpsters that TCB maintained on its properties, raising TCB's maintenance costs.

The scattered-site nature of the buildings impacted snow removal costs as well. TCB often plowed areas that were the responsibility of the City of Holyoke in order to provide access to all of its properties.

Managers also dealt with graffiti, especially on the buildings that bordered vacant lots. One way to combat graffiti was to landscape, but TCB could only do this on its own site, so buildings which bordered empty lots were prime targets. TCB tried to trace the owners of the sites or to convince the City of Holyoke to deal with them, often to no avail.

The assistant manager also believed that the high density of residents in the property led to high maintenance costs. In particular, the approximately 350 kids living in the three Holyoke properties created traffic in the common areas and raised landscaping costs. The open nature of the site also attracted neighborhood children. All of this traffic impacted the costs not only of landscaping, but also door and lock repairs.

Despite the high costs, the site managers mentioned that it was essential to keep the property maintained. Eventually, continued cleanup of the site discouraged more graffiti and crime. Tenants began to care more about how their surroundings looked.

Also they felt that other property owners in the neighborhood started to care more because of the effort TCB was making.

The fact that this was a newly rehabilitated development did impact the maintenance and repair role. Both managers mentioned that there were kinks being worked out of some of the newly installed systems. Although the cost of fixing these items had come out of the redevelopment budget, there was an impact on the operation expenses for the property because they required staff attention.

### Security

Many of the factors which impacted the maintenance and repair responsibilities of the management, also affected security of the site. TCB did not contract with a private security company at this site as it had at others in its portfolio. Although neither manager indicated crime was a major issue, the surrounding neighborhood did impact security at the development, primarily because of its open configuration. The management staff had begun working with neighbors to deal with security issues, and the police had recently agreed to assign foot patrols to the development.

Multiple building entrances offered opportunities for non-residents to enter the site. The site manager, who was new to the job, mentioned that she even had difficulty getting to know all the tenants because the site was so spread out.

In general, both managers felt that the neighborhood had improved a lot since Nueva Esperanza began its work there but that perceptions had not yet caught up with that fact. The site manager sometimes had problems getting contractors to come to the site, for example. She believed it was because they disliked coming to the neighborhood and had little incentive to serve it.

If crime occurred on-site, one of the site managers said, it was usually due to such mistakes as leaving a door or window open. She hypothesized that it could be easier for these types of break-ins to occur because the site was so open and it was easy for non-

residents to gain access. In the summer, it was also common for tenants to leave the doors and windows to their units, which have no air conditioning, open.

### Resident Services

Assisting residents was a primary part of the manager's job at the Phoenix development. The assistant site manager described her open management policy. Even though a problem might not occur during normal business hours, she tried to be available whenever possible to help tenants. Tenants sometimes requested help coordinating welfare payments. Others were single parents and needed some assistance or advice dealing with their children. "There are a lot of stresses in these people's lives," she said. "They turn to the property manager for help."<sup>19</sup>

TCB also provided resident services which were focused on the youth of the development. In addition to the site office staff, a VISTA volunteer and a youth worker funded by the Massachusetts Housing Finance Agency (MHFA) were located on-site. These individuals helped to organize activities including a Youth Rap group, and coordinated summer jobs. With additional funds from MHFA, five teenagers from the development were to be hired for the summer to plan activities, supervise playgrounds, give lectures and workshops to other teens, and receive training in dispute resolution.

The site manager believed that the investment in teens was worthwhile. "At other developments I've worked at," she stated, "a few activities are planned, turnout is mediocre, and that's it. Here, kids get much more involved; they are very appreciative of the activities that are planned for them."<sup>20</sup> She felt that TCB went one step further and really made an investment in letting kids know they were valued.

The assistant manager noted that sometimes the human component of her job impacted the physical. When a teen was discouraged from joining a gang, for example, it

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<sup>19</sup>Interview with Nilsa Santiago, Assistant Site Manager, The Community Builders, July 7, 1994.

<sup>20</sup>Interview with Elaine Fletcher, Site Manager, The Community Builders, July 7, 1994.

lessened the chance that gang activity would move on-site bringing along other problems such as crime or vandalism.

The office staff often made referrals to other service organizations in the area such as the Holyoke Neighborhood Partnership and El Arco Iris, which was also involved in youth activities. TCB also had a social service coordinator located in the central office to assist with tenant related matters that the staff may not have been equipped to deal with. One of the property owners, Nueva Esperanza also provided services such as counseling, and educational seminars on alcohol abuse and AIDS. Nueva Esperanza had also coordinated health care for residents, by arranging for immunizations on-site, for example.

An analyst at the Massachusetts Housing Finance Agency responsible for oversight of this property summed up the resident services approach by stating that both TCB and the owners were working to foster a sense of community in this area. "They get the residents involved through various activities, and the residents, in turn, make management aware of what is going on in the buildings."<sup>21</sup> In the long-term, she felt this helped to lower the costs of management because it discouraged crime and vandalism in the area.

## **Expenses**

The final responsibility of the management agent was to develop and implement the operating budget for the site. TCB prepared the annual operating budget for the project which was approved by the owner. When the development was initially completed, the operating budget was developed with the input of the Massachusetts Housing Finance Agency (MHFA). Since full lease-up, TCB and the owner updated the budget as necessary and were not required to obtain input from MHFA unless they were requesting a rent increase or refinancing the property.

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<sup>21</sup>Interview with Alice Warren, Management Analyst, Massachusetts Housing Finance Agency, July 5, 1994.

The operating expenses were estimated based primarily on comparable expenditures for the two other developments in the area, South Holyoke and South City, which TCB managed. Total operating expenses for the Phoenix development during fiscal year 1993 were \$5,885 per unit. The following chart provides a breakdown of this figure and lists some of the key components of each expense category:

<b>CATEGORY</b>	<b>PER UNIT</b>	<b>KEY COMPONENTS</b>
Marketing & Renting	\$23	Newspaper and radio advertising for vacant units
Administrative	\$1,393	Administrative staff and benefits, Management Fee, Misc. Administrative Costs
Utilities	\$1,254	Heat, Electric, Water for Common Area Heat and Hot Water for units
Maintenance	\$1,499	Maintenance Staff salary and benefits, maintenance and repair related supplies
Miscellaneous	\$45	
Taxes & Insurance	\$630	Property Tax and Liability Insurance
Financial	\$0	
Service	\$162	Youth worker salaries to be reimbursed by MHFA.
Replacement Reserve	\$878	For future capital expenditures.
<b>TOTAL</b>	<b>\$5,885</b>	

The administrative and maintenance sections of this budget primarily reflected staff salary and benefits costs. Staff costs were shared with the other two sites TCB managed in Holyoke. The percentage of staff time charged to each development budget was calculated based on the percentage of units each development represents. The Phoenix budget accounted for 45% of the total staff costs to manage all three developments.

The Phoenix share of staff costs represented approximately 25% of its total operating budget. Maintenance and janitorial staff costs alone reflected 15% of the total site budget at \$900 per unit per year. The administrative expenses also included a \$50 per unit per year expense for office rent. TCB managed the Holyoke sites from a building



owned by Nueva Esperanza that was not part of any of the three developments. The site budget, therefore, included a rent payment for office space.

Additional components of the maintenance expenses to note included a \$63 per unit charge for snow removal, \$123 per unit for trash removal, and \$112 per unit for paint and other supplies associated with unit turnover and general upkeep of the site.

The relationship of these expenses to the management priorities of this site, and variances from the expenses of other two sites, will be further discussed in Chapter 4.

## **LANGHAM COURT COOPERATIVE, BOSTON, MASSACHUSETTS**

### **History**

In 1986 a city-owned vacant lot in the South End went on the auction block. The site, located just east of Massachusetts Avenue and bounded by Washington Street and Shawmut Avenue, was a hangout for drug dealers and prostitutes. As part of the South End Neighborhood Housing Initiative (SENH) process, the city agency responsible for the site, the Boston Redevelopment Authority, solicited proposals for its development.

Fearful of speculative condominium development, community activists from the South End mobilized to preserve the diversity of the neighborhood which encompassed not only different racial groups but different economic groups as well. They also wanted to ensure that the site was developed to preserve the availability of low-income housing in the South End.

Acting on that concern, the Four Corners Community Development Corporation (Four Corners CDC) was created to submit a proposal to develop this site. Its board of trustees was made up of residents from the area. Working with The Community Builders as development consultant, and the architecture firm of Goody, Clancy & Associates, the Four Corners CDC submitted a development proposal to build mixed-income housing on the site. The development was designed to be architecturally consistent with the historic

row houses found in the surrounding neighborhood. In 1987, the Boston Redevelopment Authority approved the proposal and selected the Four Corners CDC to purchase and develop the site.

The Community Builders provided technical assistance to the Four Corners CDC, which had no previous development experience, and drew on its expertise in property management during the construction process. Financing for the development came from multiple sources including: the Federal Low Income Housing Tax Credit Program, the Massachusetts Housing Finance Agency, the City of Boston Linkage Fund and the Housing Innovations Fund. Since it was a mixed-income development, the Four Corners CDC reserved one third of the units for low-income residents, one third for moderate-income, and one third for rental at the prevailing market-rate. According to the assistant director responsible for this site, this was the key factor distinguishing Langham Court from the Holyoke and Salem Point developments.

Due to the market-rate component, the development was designed to attract an upper-income customer. Amenities included an underground parking garage, central air conditioning in all the units, and an electronic security system with individual security codes for each tenant.

In order to provide the tenants a voice in its management, as well as security of tenure, the Four Corners CDC structured the project as a limited equity cooperative. In a cooperative form of ownership, tenants buy an equal share in a corporation that owns the building. They do not own their units directly as with a condominium. Tenants are considered part owners and as such play a greater role in the day-to-day operations of the property than do tenants in rental housing.

Named for a hotel that occupied an adjacent site in the 19th century, Langham Court was ready for occupancy in 1991. Although the weak real estate market led to slow leasing of the market-rate units, the project had been fully occupied since 1993. That

same year, Langham Court won an architectural award as the best new mixed-income housing development in the country.

### **Site Description**

Langham Court's location in Boston's South End bordered areas of both affluence and poverty. On north side was the upscale, pricey Back Bay enclave. To the west and south was the low-income neighborhood of Roxbury. Reflecting that dichotomy, the South End was probably one of the most economically integrated areas of the city, with both a mixture of affordable and market-rate housing.

Langham Court was located close to the Roxbury side of the neighborhood, two blocks from Massachusetts Avenue. Its main entrance was on Worcester Street and it was bounded by Shawmut on the north and Washington on south. Along Shawmut Avenue, the area was dense with the South End's brownstones, but on the Washington Street side, boarded up buildings had become commonplace.

The development consisted of 84 apartment and townhouse units -- all located in one contiguous building. Residents could enter their duplexes from each of the three streets they bordered, and the apartments through a main entrance located on Worcester street. The units mix included 15 studio apartments, 29 one-bedrooms, 26 two-bedrooms and 14 three-bedrooms. The apartment units were situated around a courtyard with terraces and lawns that opened onto it.

Like the neighborhood, the tenant population was both racially and economically mixed. One third of the units were market-rate, and TCB anticipated that they would rent at rates equivalent to other unsubsidized housing in the surrounding neighborhood. According to TCB's assistant director for this development, however, management had to lower the carrying charges (the equivalent of rent in a cooperative) because a glut of market-rate units came on line in the late 1980s. In order to lease the market-rate component of the property, TCB adjusted its projections for these units. Management had

since raised the market-rate carrying charges by 4% and anticipated doing so again during the coming year. The market-rate carrying charge for a two-bedroom unit ranged from \$936-\$1,100 depending on its size and location in the development.

Another third of the building was reserved for low-income tenants (below 50% of median) who had a rental subsidy such as Section 8 or the Massachusetts Rental Voucher Program (MRVP). As described for the South Holyoke property, these tenants paid a percentage of their income in carrying charges and the federal or state government made up the difference. At Langham Court subsidized tenants paid 35% of their income because the carrying charge included heat, hot water and air conditioning.

Finally, the Four Corners CDC wanted to make sure that some of the housing at this development was available to moderate-income individuals (between 50 and 80% of the area median) who were not able to obtain rental subsidies. Typically, when a community development corporation develops a property, it collects a certain percentage of the development as a "developer's fee." This money is used to support the ongoing operations of the organization. Because the Four Corners CDC was established for the sole purpose of developing Langham Court, there were no ongoing development operations to support. The board of trustees, therefore, negotiated with the funding agencies to use the development fee to further subsidize carrying charges in the property. For the 28 moderate units, carrying charges ranged from \$473 to \$484 for a one bedroom, \$572-\$744 for a two bedroom and \$723-\$853 for a three bedroom.

All tenants of the building were required to join the cooperative. In addition to the carrying charges, residents paid a share payment which represented their equity in the development. Share payments were based on income level and unit size and ranged from \$1,600 for the smallest low-income unit to \$2,400 for the largest market-rate unit. There was a loan program and a graduated payment schedule for tenants of low and moderate income.

If residents chose to leave the cooperative, they could recoup this fee, plus an additional amount related to the property's increase in value. The limited equity cooperative form of ownership allows some return on investment yet keeps the housing affordable for the long-term. The ownership of the development was shared between the Four Corners Community Development Corporation and the Cooperative Corporation. Tenants had a voice in the management and operations of the property and worked closely with the Four Corners CDC.

### **Management & Operations**

As at the Phoenix development, TCB provided comprehensive property management services at Langham Court. TCB did not, however, manage any other developments from this site. Langham Court had one full-time site manager, a full-time maintenance worker and a half-time janitorial worker.

Although the staff members at Langham Court were responsible for fewer units than staff members at the South Holyoke property, both the site manager and the assistant director talked about the difficulties a small site presented. While management companies can save on costs by hiring extra staff and consolidating the management of several small sites, such economies are not always possible. Separate owners of small sites tend to want a staff member responsible for only their property and resist "sharing."

Therefore, Langham Court, and other properties like it, have to make do with the maximum amount of staff the development can support. In this case it was 2.5 full-time workers. With no back-up staff, the site manager could not even have a one-hour interview without interruptions. When she had to leave the office for another part of the site, there was no one to answer phones or greet vendors. The strain was so great that the site manager could hardly take time off for a vacation or illness. Without any back-up, she literally took her job home with her.

### Marketing and Renting

Regarding the marketing and renting of units, there had been little turnover in the low and moderate units at Langham Court. In fact, the site manager indicated that she had to turn people away because the waiting list had grown so long. The market-rate units, however, had the highest turnover and the site manager had trouble finding market-rate applicants although she was about to fill two current vacancies.

Because of the rent reductions on the market-rate units, the property had difficulty meeting its expenses and debt obligations and was undergoing refinancing. The property had met its operating expenses but had delayed payments to the replacement reserve account. The account, however, had recently been repaid with unanticipated interest from an escrow account. Langham Court had resumed regular payments to the replacement reserve account in 1994.

For Langham Court, a general perception that the neighborhood was unsafe made the units harder to market. The assistant director explained that this perception led the developer to install a complex security system on the site. The original development plans for Langham Court called for a less intricate security system but, during the construction phase, TCB's management division recommended the system be expanded to facilitate marketing the units.

The assistant director elaborated about the challenge of getting people to the property. "Once they see it," she stated, "they find the design and amenities very appealing."<sup>22</sup> Over the phone, however, prospective residents expressed doubt about the property based on its proximity to Washington Street.

Because the property was a cooperative, Langham Court's residents played an active role in marketing and renting. When the property was first being leased there were numerous orientation meetings to educate prospective tenants on the rights and

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<sup>22</sup>Interview with Elaine Quinn, Assistant Director, The Community Builders, July 18, 1994.

responsibilities of cooperative ownership. The assistant director described the screening process as intensive and many of the original applicants filtered out following those early meetings.

With the property leased and the cooperative established, the tenants helped to rent vacant units. They visited applicants in their homes to interview them and discuss the details of joining the cooperative. Prospective tenants were informed that they had an obligation to participate in the general upkeep and operation of the property.

### Maintenance

With the cooperative form of ownership, tenants also played a role in the maintenance of the site. The site manager noted that residents were more involved in maintaining the property than in a typical apartment community. Even though Langham Court was a family development, wear and tear did not seem to be a problem because parents monitored their children closely. The site manager also mentioned that many of the tenants took an interest in snow removal during the winter and requested that she leave the supplies available on the weekends when the site staff was not available.

There had been a number of maintenance issues related to the original construction of the development that affect staff time and expenses. In particular, the hot water system had experienced a number of problems and continued to require attention. The garage door did not work properly and needed a new motor. And, during the last two winters snow falling off the roof had damaged a number of light fixtures in the courtyard. TCB installed a snow guard to prevent this in the future.

### Security

Limited access to the site had kept security problems low. Additionally, the site manager did not indicate that properties surrounding the development had much of an impact on its management. Even the abandoned building next to the site had not

presented any problems. The site manager speculated that residents might feel more secure because incidents of crime had been minimal and because the security system was so elaborate. There was one robbery late at night when someone followed a resident into the building. The residents had recently formed a crime watch to monitor activities which might jeopardize their security.

### Resident Services

The resident service aspect of this site's operation was minimal. The operating budget included a line item for training for the residents of the development in cooperative ownership, and the cooperative was in the process of formally establishing a board of directors. The Four Corners CDC was the dominant player in the ownership structure of this property. Once the cooperative association elected a board which was representative of all income groups in the property, the residents would take over as the general partner and the Four Corners CDC would play a smaller role.

There were a number of organizations in the area that provided supportive services but, in general, the site manager and assistant director did not seem to indicate this tenant population needed many services. There was a mix of working professionals as well as individuals on public assistance in the building. The assistant director speculated that this population was not as "extreme" as one might find in other inner-city developments and attributed that to the cooperative form of ownership, as well as the fact that it is a mixed-income development.

### **Expenses**

Total operating expenses for the Langham Court development during fiscal year 1993 were \$4,581 per unit. The following chart provides a breakdown of this figure:



<b>CATEGORY</b>	<b>PER UNIT</b>	<b>KEY COMPONENTS</b>
Marketing & Renting	\$194	Newspaper advertising for vacant units Rental furniture for model.
Administrative	\$1,216	Administrative staff and benefits, Management Fee, Misc. Administrative Costs
Utilities	\$1,464	Heat, air conditioning, and water for all units.
Maintenance	\$1,023	Maintenance Staff salary and benefits, maintenance and repair related supplies Security system monitoring fee (\$196 per unit)
Miscellaneous	\$54	
Taxes & Insurance	\$611	Property Tax and Liability Insurance
Financial	\$1	
Service	\$18	Consulting for Cooperative Board
Replacement Reserve	\$0	
<b>TOTAL</b>	<b>\$4,581</b>	

The administrative and maintenance staff salary and benefit costs for this site made up 23% of the total operating budget. Maintenance and repair staff independently made up 12%. The utilities for this development, at \$1,464, represented 31% of the total budget. This figure included heat, hot water and electricity charges for all of the units which had air conditioning systems. The annual cost for electricity alone was \$576 per unit.

The maintenance portion of the budget included approximately \$200 per unit for security expenses. This reflected a \$15 per unit per month charge for telephone monitoring of the security system. Finally, the maintenance costs also reflected a \$61 per unit expenditure to maintain the elevators in the main building.

## **SALEM POINT COOPERATIVE, SALEM, MASSACHUSETTS**

### **History**

In 1989 the residents of the Salem Point neighborhood mobilized to take control of their blighted neighborhood. Many of the buildings had changed ownership each year due

to speculation that the area, located adjacent to more affluent neighborhoods, might gentrify. Some of the speculative investors had defaulted on their mortgages. Several of the buildings were scheduled to be auctioned by Recoll, a Fleet Bank subsidiary established to dispose of foreclosed properties, when the neighborhood residents mobilized to take back control of their neighborhood.

The speakers were shut off and the auction was literally shut down. Following that event, the residents of the neighborhood began working with the Salem Harbor Community Development Corporation (Salem Harbor CDC) to gain control of the eleven buildings that ultimately were to become the Salem Point Cooperative. Recoll agreed to delay the sale of the properties while the Salem Harbor CDC acquired the funds needed for their purchase and rehabilitation. Three years later their objective was realized.

In 1991 the Salem Harbor CDC officially acquired control of the buildings and began the rehabilitation process. At that point, The Community Builders became involved as both the management agent and development consultant for the planned rehabilitation of these buildings. Absentee landlords had neglected the properties, leaving only 25% of the 77 units occupied. Approximately 15-20 families remained and TCB helped to relocate the residents until the rehabilitation was complete. In addition to relocating residents during construction, TCB helped the residents establish a cooperative corporation which would share ownership of the redeveloped property with the Salem Harbor CDC.

Rehabilitation funding came from a variety of sources including: the Massachusetts Government Land Bank, The City of Salem, the federal Low Income Housing Tax Credit program, the Housing Innovations Fund, and the Federal Home Loan Bank. The tenants provided input on the rehabilitation process through weekly meetings with TCB staff and the Salem Harbor CDC.

The rehabilitation work focused mainly on the interior of the buildings and included: new roofs, windows and doors; new kitchens and baths; new plumbing, electrical

and fire safety systems; refinished floors; washer-dryer hookups for some units and common basement laundries for others. All of the units were also delead. By the summer of 1992, TCB and the Salem Harbor CDC had completed the rehabilitation and began to lease the units.

### **Site Description**

The distinction between the Salem Point neighborhood and the area it bordered was most clearly illustrated by the contrast between two open areas. Within the neighborhood, a small, uninviting dirt-filled park with a dilapidated swing set and littered with trash told a story about the place it served. Immediately across Lafayette Avenue, which borders the neighborhood, another park, with a well-manicured lawn, bright flowers, neatly trimmed shrubbery and freshly painted benches told a much different story.

Although the Salem Harbor CDC had made progress toward improving the area, the Salem Point neighborhood still suffered, with trash in the streets and old buildings. The 14-15 block area, bordered by Salem Harbor on one side and Lafayette Avenue on the other, was primarily filled with a mix of apartment buildings and two-family homes. Just as the adjacent neighborhood enjoyed a better park than Salem Point, the residents of that neighborhood also had cleaner streets and better maintained housing than did Salem Point's residents.

The assistant director at TCB noted that the Salem Point development differed from Langham Court and Phoenix because the borders of the Salem Point neighborhood were so well defined. She mentioned that it was the only poor area in the city of Salem and viewed that as a mixed blessing. On the one hand, the neighborhood received the bulk of the city's social service dollars. At the same time, she noted that the neighborhood often received inadequate maintenance.

The 77 units in the Salem Point Cooperative were spread out in eleven buildings over a three block area. The development included no common areas although some of

the buildings had laundry rooms in the basement and one had a very small courtyard area. The rehabilitation effort focused on the interior of the buildings and therefore, the cooperative buildings were not easily distinguishable from others in the area. The rehabilitation process did include exterior painting, however, and TCB installed small red awnings over the entryways of the properties.

The site manager indicated that local residents knew the cooperative buildings and sought them out because the interiors were so nice. The tenant population in the area, and in the cooperative, was mostly Latino. The Salem Point neighborhood had traditionally housed immigrants and the population had changed over time from French Canadian to Puerto Rican and, most recently, to a Dominican population. The site manager explained that the immigrants had come looking for a better way of life and, she felt, through their efforts to improve housing in the neighborhood the Salem Harbor CDC and TCB were to helping to provide that.

Forty-eight of the 77 units were two-bedrooms and 29 were three-bedrooms. Fifteen of these units were reserved for very low-income families with some form of rental subsidy. An additional 45 of the units were reserved for very low-income families without any type of subsidy. The carrying charges on these units ranged from \$390-\$575 a month. Tenants' incomes had to be below 50% of the Salem median, or no higher than \$25,650 for a family of four,<sup>23</sup> to qualify for any of these units. Finally, 17 units were reserved for moderate-income families with carrying charges ranging from \$550-\$719 a month. There was no maximum income limit for these units.

Similar to the Langham Court development, Salem Point was designed as a cooperative form of housing where tenants had an ownership stake in the development. In addition to paying the monthly carrying charges identified above, a one-time share payment was required. At Salem Point, the share payment cost for a unit was \$550 for a

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<sup>23</sup>Based on the 1994 Salem median income of \$51,300 (Source: Executive Office of Communities and Development)

two bedroom and \$660 for a three-bedroom. This payment could be spread out over a period of 18 months.

### **Management & Operations**

The staff at the Salem Point office included a full-time site manager and assistant site manager, a maintenance superintendent, an assistant maintenance worker and one janitorial worker. These individuals managed both the 77 units cooperative and 45 additional units of rental housing owned by the Salem Harbor CDC in this neighborhood.

#### **Marketing and Renting**

The site manager felt that the rehabilitation work of the Salem Harbor CDC and TCB had begun to change the image of the neighborhood. The cooperative units had developed a reputation as some of the nicest in the neighborhood, which facilitated marketing and rent-up. In particular, the new interiors attracted potential residents to the building.

When vacancies occurred approximately once a month, advertisements were placed in local English and Spanish language newspapers. The site and assistant managers were both bilingual, which also facilitated tenant selection.

The tenants at Salem Point participated in the selection process and, like at Langham Court, visited prospective tenants at their homes after they filled out the initial application. At the home, residents informed the prospective tenants about the rights and responsibilities of joining a cooperative. The home visit also provided insight on the family, since usually only one member came to the management office to apply for the unit. In addition, prospective tenants had to satisfy prior housing history and credit standards which were outlined in a resident selection plan.

After gathering all of this information, members of the resident selection committee brought a final recommendation to the full committee, which included residents

of the building and a representative of the Salem Harbor CDC, to make a decision on a new tenant.

Despite this intensive screening and education process, the site manager described instances when some tenants had moved out without notice. In these cases, the management treated their cooperative fee as a security deposit and applied it to any unpaid carrying charge, or loss from the unexpected vacancy. The site manager suggested that cooperative ownership was not necessarily a selling point for the Salem Point units. She indicated that the residents were primarily interested in living in the newly refurbished housing, and that having an ownership stake in the development was not necessarily their main objective.

Finally, the site manager complained that the burden of keeping track of the income level designations for units in each building made the job of marketing and renting units more difficult. The Low Income Housing Tax Credit program in particular requires that a certain percentage of units be reserved for tenants qualifying as low-income, moderate-income, market-rate, and low-income with rental subsidies. Each building in the development must reflect this income mix, placing an additional administrative burden on the site manager.

If, for example, a low-income/no rental subsidy unit became vacant and the next prospective tenant was a low-income certificate holder, the manager could fill the unit but had to reserve the next vacancy in that building for someone with no subsidy in order to restore the balance. The guidelines do not allow managers to simply reserve the next available unit in the entire development to the appropriate category of tenant.

### Maintenance & Security

Consistent with the TCB management philosophy, the site staff emphasized maintenance at this site. The site manager identified maintenance as one of the key

challenges of her job. Specifically, she felt it was difficult to keep the property maintained to TCB standards and keep it affordable.

The scattered-site nature of the properties made maintenance work more difficult. The staff used radios in order to communicate between buildings and they also had a vehicle. Although the eleven buildings were all located within a three block area, the location of the site office was three blocks from the closest building which forced the staff to spend time traveling back and forth.

In addition, the number of buildings increased maintenance work as well. Among the eleven buildings that comprised the site, there were 28 entrances and stairwells that required cleaning. The site manager indicated that the maintenance staff usually only made it to each entryway once a week and the areas could benefit from more frequent cleaning. While the tenants, as cooperative members, were supposed to assist in the maintenance of the hallways during the week, the site manager indicated that not all of the tenants had been willing to do this consistently.

Several vacant lots and abandoned buildings in the neighborhood surrounding the development also affected its maintenance. While the city of Salem had cleared one lot adjacent to a cooperative building, TCB and the Salem Harbor CDC had taken care of cleaning a second site themselves. With volunteer labor and donated supplies they were able to create a park for children to play in. TCB and other landlords in the neighborhood had also organized neighborhood clean-ups from time to time. Despite these efforts, numerous lots remained filled with trash.

Security was not a major issue in the neighborhood although the site manager indicated they had added floodlights to the back of the development buildings and the staff monitored the doors of the development buildings to ensure they were kept closed. The former director of the Salem Harbor CDC said the neighborhood was safe relative to other inner-city environments and she could only recall one violent incident during the four years she worked there.

### Resident Services

TCB and the Salem Harbor CDC worked cooperatively to provide services to the residents of the cooperative. The site manager had grown up in the neighborhood, as had her assistant, which helped them to identify and address the needs of the residents. In addition to the time administrative staff spent helping tenants, the operating budget for this development included a line item to support an outreach worker employed by the Salem Harbor CDC. Tenants more often relied on the site manager, however, because they were unaware that the outreach worker could help them, or because the outreach worker was busy meeting the needs of other residents of the neighborhood.

Tenants sought assistance from the site manager for a variety of issues but usually for problems paying their monthly carrying charge and utilities. Sometimes tenants sought her assistance dealing with utility companies to prevent shut-offs if they were behind on their payments.

In Salem Point, the Salem Harbor CDC provided most of the available social services but there were other organizations available to serve the residents of Salem Point. The North Shore Community Action Group (NASCAP) helped tenants find apartments and meet rent and utility payments when necessary. Catholic Charities was also active in providing help to residents. The landlords in the neighborhood had formed the Point Neighborhood Improvement Association and organized community clean-ups, among other activities.

### **Expenses**

Because the development was not fully occupied during all of 1993, the annual per unit expense figure was calculated from July 1993 through June of 1994. Total operating expenses for the Salem Point development during the last half of 1993 and the first half of 1994 were \$4,504 per unit. The following chart provides a breakdown of this figure:



<b>CATEGORY</b>	<b>PER UNIT</b>	<b>KEY COMPONENTS</b>
Marketing & Renting	\$75	Newspaper advertising for vacant units
Administrative	\$1,192	Administrative staff and benefits, Management Fee, Miscellaneous Administrative Costs
Utilities	\$805	Heat, Electric, Water for Common areas, some units
Maintenance	\$1,392	Maintenance staff salary and benefits, maintenance and repair related supplies, costs of maintaining vehicle.
Miscellaneous	\$0	
Taxes & Insurance	\$539	Property Tax and Liability Insurance
Financial	\$1	
Service	\$26	Training for cooperative board
Replacement Reserve	\$473	For future capital expenditures.
<b>TOTAL</b>	<b>\$4,504</b>	

As with the Phoenix site, staff costs for Salem Point were shared with the other TCB-managed development. Based on its number of units, the Salem Point share of total staff costs was 63%. This share of staff salary and benefit costs represented 26% of Salem Point's operating expenses.

According to the assistant director for this site, the utilities cost, at 17% of the total operating budget, may have been lower than normal due to incorrect water billings during 1993. The utilities metering differed for each building in the development. For four of the buildings, heat for the units was paid for out of the site operating budget. For the other seven buildings, the tenants paid heat and hot water bills.

Finally, the maintenance portion of the budget also included \$96 per unit for cleaning supplies and \$140 per unit for exterior repairs, which included painting over graffiti.

## CHAPTER FOUR

### ANALYSIS

The sites that were described in Chapter Three provide a wealth of information about the inner-city environment and its impact on both the property management effort and operating expenses. The following discussion will analyze the data that has been presented within the framework outlined in Chapter Two. Not all of the data collected fits neatly within one of the four categories (physical/financial, location, tenant mix, services). Security costs, for example, were found not only to be a function of the location of the development and its actual risks, but of the perceptions of the tenants as well. Similarly, maintenance costs were affected by factors in almost all of the categories. Despite this overlap, the framework is a useful tool for organizing the data and identifying similarities and differences among the sites.

The point of the analysis is not to evaluate the specific operating expenses of any one site, but instead to use what was learned about the management of each to explain, and highlight any differences in, the costs that were observed. The following chart compares the annual per unit expenses for the three sites and will be referenced throughout the discussion:

CATEGORY	PHOENIX	%	LANGHAM	%	SALEM	%
Marketing & Renting	\$23	1%	\$194	4%	\$75	2%
Administrative	\$1,393	24%	\$1,216	27%	\$1,192	26%
Utilities	\$1,254	21%	\$1,464	32%	\$805	18%
Maintenance	\$1,499	25%	\$1,023	22%	\$1,392	31%
Miscellaneous	\$45	1%	\$54	1%	\$0	0%
Taxes & Insurance	\$630	10%	\$611	13%	\$539	12%
Financial	\$0	0%	\$1	0%	\$1	0%
Service	\$162	3%	\$18	.5%	\$26	.5%
Replacement Reserve	\$878	15%	\$0	0%	\$473	10%
<b>TOTAL</b>	<b>\$5,885</b>	<b>100%</b>	<b>\$4,581</b>	<b>100%</b>	<b>\$4,504</b>	<b>100%</b>

## **Physical & Financial**

The configuration, size, and administrative requirements of the funding programs were found to have the most notable impact on the expenses of these three inner-city sites.

### Configuration

The research confirmed that a scattered-site configuration significantly affects maintenance costs. The contrast between the configuration of units at Langham Court versus the Phoenix and Salem Point developments best illustrates this. At Salem Point, there were 28 different entrances and stairwells to clean. At Phoenix there were 15. Although Langham Court had nine, in eight of these traffic was limited to two families each accessing their units. At Langham Court the majority of tenants passed through the main entrance on Worcester Street and this seemed to lessen both the cleaning and the door and lock maintenance required, relative to the other two developments.

The impact of configuration was not just a function of maintaining entryways and stairwells. Due to the spread-out nature of the sites, the Salem Point and Phoenix developments had extra trash and snow removal costs. These costs were also linked to the level of city services provided in the area. At Phoenix, these two costs alone represented approximately \$200 per unit. Because of the configuration at Langham Court, the surrounding neighborhood had less of an impact on the site. The management staff did not have to deal with trash from adjacent properties blowing onto the site, for example.

The overall expenditures on maintenance also illustrated the impact of configuration. Langham Court spent approximately 22% of its total expenses on maintenance versus approximately 25% and 31% for Salem Point and Phoenix, respectively. The difference is even more striking, however, if the figures are adjusted to reflect similar costs. Langham Court was the only one of the three developments with a

security system cost, which is considered part of the maintenance category. After factoring out this cost, Langham Court spent only 17% of its total expenses on maintenance, which was considerably lower than the other two developments. This difference could also be attributed to the fact that the Langham Court development was a new construction project and the other two developments were a mix of rehabilitation and new construction.

Although Langham Court had the lowest maintenance costs, its utilities were the highest of the three developments at \$1,464 per unit or 32% of the total expenses. This was primarily due to the fact that the development paid for heat, hot water and air conditioning for the individual tenants units, as well as for common areas of the development. The Phoenix development paid for tenants' heat and hot water as well, but these costs only made up 21% of the total expenses. At Langham Court, the costs were probably higher due to the air conditioning, an amenity which could be attributed to the fact it was a new construction project, and/or to facilitate its marketing.

### Size

Another important physical factor that was illustrated by the site research was the size of the development, and whether or not its management could be consolidated with a contiguous or nearby site. This affected the number of staff that could be hired and had an impact on the way services were delivered.

Because the management of the Salem Point and Phoenix sites were consolidated with other properties, each had a larger overall staff dedicated to its management. At Phoenix there were six individuals on staff, four of whom were devoted to maintenance. At Salem Point there were five individuals on staff, three of whom were devoted to maintenance.

Langham Court, by contrast, had only two full-time staff members and one half-time staff member due to the fact it was managed as an independent site. In addition to

having the highest staff to unit ratio (one staff member for 33 units versus one for 24 at Phoenix and Salem Point), the strain of a smaller staff was evident. At Langham Court, the site manager was the only administrative staff member and had no one to back her up if she needed to leave the office to deal with an issue on-site. During the interview, for example, she had to close the office when a contractor arrived to investigate a problem with the hot water system.

Even though the staff members at the Phoenix and Salem Point sites were responsible for other sites as well, they were able to take advantage of the synergy created by a larger staff. One member could cover the phones and deal with tenant needs in the office, for example, while another dealt with issues elsewhere on the site. The larger staff also allowed a little more flexibility if someone was out sick or on vacation. The Langham Court development could not afford this luxury and therefore the level of service provision had to be modified.

#### Administrative Requirements

An important financial factor which most directly impacted operating expenses in all three developments was the administrative burden of the complex financing programs that provided subsidies. This was illustrated best by the Salem Point site manager who explained the complicated process of maintaining the required balance of units for tenants of different income levels, with and without certificates, in each of the eleven buildings. This requirement was part of the federal Low Income Housing Tax Credit program, which was a financing source for all three developments. This factor took a significant portion of the administrative staff's time and therefore impacted the administrative costs, which represented at least 25% of the overall operating expenses for each site. Each site manager emphasized that, due to the specific demands of the inner-city environment, finding the time required to handle paperwork was a key challenge of her job.

It was interesting to note that, despite a physical design that allowed for better control of maintenance costs, Langham Court was the property being refinanced in order to meet both its debt service and operating expense obligations. Although the financial structures of the three developments were not explored in depth, this factor is important to the long-term operation of a property and should not be overlooked. The Langham Court situation illustrates the difficulty of meeting both the operating expenses and debt service of low-income housing development.

In order to deal with its short-term finance problems, Langham Court had suspended its replacement reserve payments. Although the payments had been resumed in 1994, a sudden capital need could have significantly impacted the operating budget. Due to the fact this development was entirely new construction, it was probably less likely that a short-term suspension of the replacement reserve payments would impact its operations. For a rehabilitated property, however, that might not be the case.

An additional financial factor that might impact future operating expenses at all the developments is the rent or carrying charge levels. Many of the funding programs for affordable housing link rent increases to increases in the median income. If operating expenses grow at a faster pace than incomes, the property is at risk of running into a shortfall in the future. All of the properties faced this risk but Langham Court faced an additional problem. The moderate-rate unit carrying charges were being subsidized through the use of a revenue stream (the Low Income Housing Tax Credit program) that would not continue beyond the 15th year of operation. When this source of revenue stops, carrying charges will have to be raised or operating expenses cut back or both.

## **Location**

The impact of the location of each property on operating costs was illustrated by: the security issues of the neighborhood; the impact of surrounding buildings; the market and the level of attention the neighborhood received from the city.

Although all were classified as inner-city, the three neighborhoods were very different from one another. If one were to locate each development along a continuum based on the concentration of people and general activity, Langham Court would be on one end, densely packed with housing. Although it bordered areas of poverty, the South End was a thriving community and there were few abandoned buildings or vacant lots adjacent to the property. The Phoenix development, located in an area that was quite a contrast from South End, would probably fall at the other end. While a large city, Holyoke was clearly not a growing community and this was especially evident in the desolate area surrounding the development. Finally, although the area immediately surrounding the Salem Point development was also poor and contained abandoned buildings, the proximity of healthier neighborhoods put it somewhere in the middle of the two other developments.

### Security

In the South End, security was a significant issue due to its proximity to a neighborhood with a high crime rate. The maintenance category of expenses for Langham Court reflected an expenditure of \$15 per unit per month, or almost \$200 per year, for telephone monitoring of the electronic security system installed in each unit. This cost can also be related to the tenant mix category. The assistant director responsible for Langham Court explained that the perception of security issues was a more important factor in the installation of the system. They felt the system was necessary to market the units and effectively compete with other developments in the area.

In Salem and Holyoke, security seemed less of an issue and operating costs were affected more by the impact of surrounding buildings. The abandoned structures and vacant lots attracted vandalism in the form of graffiti and this impacted maintenance costs for the site. Salem Point, for example, spent approximately \$200 per unit on exterior

repairs and paint supplies, which included the cost of obliterating graffiti. The Phoenix development spent approximately \$112 per unit on these expenses.

### Market

Another factor that was identified with respect to the location of a development was the market. Although it was not a problem for the Phoenix development due to its lower rents for non-certificate holders, the manager indicated that there was a high vacancy rate in Western Massachusetts and certificate holders, in particular, had many housing choices. It could be argued that costs were affected by the additional marketing required to fill units at the other TCB-managed developments in Holyoke due to the high vacancy rate. The site manager at Phoenix also cited the mobility of the tenant population in this area, which increased turnover costs.

Langham Court was also affected by the market. As mentioned in the site description, due to the glut of market-rate space that came on line at the same time, it took a while to lease up that component of the development. The site manager indicated the market-rate units were the section of the development which had the highest turnover and for which she had to work to find tenants. This is reflected in the marketing and rent-up category of operating expenses, which is significantly higher than the other developments at \$194 per unit, or 4% of the operating expenses. This expense figure included the cost of renting furniture for a model unit for six months during 1993.

Finally, the level of municipal services in the neighborhood had an impact on costs at each development. This point was best illustrated by the clean up efforts of TCB and the Salem Harbor CDC. Although the supplies were sometimes donated, these clean-up efforts did require staff time. It became clear from the interview that there was always more to do. Similar to the effects of trash on vacant lots, the basic maintenance needs of this neighborhood impacted the site's operations.



## **Tenant Mix**

As with the location, the tenants in the three developments differed in many ways. Among the factors that highlighted these differences and influenced costs were the density, or number of tenants, and the level of tenant involvement in the developments which were cooperatives. The income level and service needs of the population were also important and will be discussed in the final section on services.

### Density

With respect to density, the Salem Point and Holyoke properties had a significantly higher percentage of three and four bedroom units, which led to a higher density of tenants. These large bedroom units made up 37% and 33% of the total unit mix respectively while the three-bedroom units at Langham Court represented only 16% of the total unit mix. It is difficult, however, to get a sense of what the differences in those percentages mean in terms of costs. Based primarily on the information obtained in the Phoenix site interview, a higher density of residents impacted costs in several ways. Landscaping costs were affected, especially if there were many children in the development. At the Phoenix this situation was compounded by the fact the open nature of the site invited additional children from the neighborhood on-site.

Additionally, a higher density of residents was reflected in an increased cost for door and lock repairs. Finally, the maintenance requirements of common areas were linked to the number of residents. As traffic increased, so did the cost of common area maintenance.

The contrast of the maintenance costs at the lower density Langham Court site could help illustrate the impact of this factor on costs. Most of the families in the Langham Court development lived in the townhouses which were accessed from the street. This reduced the amount of traffic in the main entry and courtyard area of the development. Due to the fact that the data also strongly linked maintenance costs to the

configuration, however, it is difficult to attribute lower costs at Langham Court to this factor alone.

### Cooperatives

Another issue which affects maintenance costs is the level of tenant involvement in the maintenance of the site. At Langham Court, the site manager indicated that the tenants were involved in the upkeep of the site, which was considered part of the responsibility of joining the cooperative. This was a contrast from the Salem Point cooperative where, according to the site manager, the tenants did not always keep up with their maintenance responsibilities.

The contrast between the cooperatives at Langham Court and Salem Point was notable and could have been due to a number of factors. As the site manager suggested, the cooperative form of ownership was not a big selling point in Salem. The TCB-managed units were known as the nicest low costs housing in the neighborhood and therefore, tenants chose the cooperative in order to make the best housing choice. The South End, by contrast, has a mix of housing options. It is more likely that the tenants who lived in Langham Court chose to live there because they wanted to be in a cooperative. If not, there were other comparable housing options available. This is supported by the fact that many applicants dropped out of the intensive tenant selection process when Langham Court first began leasing units.

There were more families at the higher-density Salem Point development, perhaps suggesting that it was difficult for tenants to both care for their children and find the time for cooperative responsibilities. The income level of tenants at the Salem Point development was also lower, suggesting that tenants dealing with the stress of finding adequate employment to support their family found it difficult to participate in the cooperative.

Regardless of the reasons for variance between the two sites, the level of tenant participation in the cooperative can be linked to the operating expenses of a site. Both the Salem Point and Langham Court developments had line items for cooperative training of approximately \$20 per unit. (This item was reflected in the resident services category of expenses.) Although this represented an added cost which the traditional rental development did not have, it could be viewed as a short-term cost with a potential for long-term cost savings in maintenance and other areas as the cooperative members became more involved with the site operations.

## **Services**

This final category of the framework synthesizes the effect of the first three categories on the management effort at a specific site. The level and type of services provided on-site, and the way these services are provided, is primarily a function of the factors that have been identified thus far. To the extent that differences between the sites in those categories have already been explained, this section will not reiterate the reasons different levels and types of service are provided (i.e., Langham Court had a smaller staff due to its configuration). Instead, it will address what types of services were provided and how that influenced costs.

### Tenant Needs

The most important finding was that resident services are a key function of the site manager's job. Although the need for resident services such as child care and job training is there, the primary function of the manager in assisting residents was providing advice on financial problems, or issues such as dealing with children. All of the site managers conveyed the sense that keeping up with the basic maintenance and upkeep of the site, as well as the administrative paperwork, and finding time to provide assistance to the residents, made their jobs incredibly demanding.

The costs of providing these resident services did not necessarily show up in that line item of the expenses, as one might expect, but rather under the administrative category as a function of the staff time required to deal with these issues. Although assisting residents did not seem to be as great a need at Langham Court, perhaps due to the mixed-income nature of the development, the fact that there was only one administrative staff person on-site obviously made fulfilling this duty difficult.

In addition to helping tenants with issues such as paying the bills and parenting, the other services TCB administered were primarily related to youth. At the Phoenix development the cost for these services was \$162 per unit per year, although the site manager indicated that amount was reimbursed from the Massachusetts Housing Finance Agency. At the other two developments, the resident services category of expenses primarily reflected training related to the cooperative form of ownership.

Although difficult to document, there is a general perception in the affordable housing field that providing resident services lowers operating costs over the long-term. One of the MHFA staff members that was interviewed reiterated this point and it was also illustrated by the story the Phoenix site manager told about youth services. The site manager felt that, in addition to the primary benefit of investing in teens and making them feel valued, there was a secondary benefit as well. If a teen was discouraged from joining a gang, it was less likely that type of activity would be drawn to the site and would prevent costs associated with vandalism and crime.

Finally, the involvement of the sponsor of the developments in providing resident services was evident at both the Phoenix and Salem Point developments. Part of Salem Point's operating expenses reflected a contribution to the salary of an outreach worker at the Salem Harbor CDC. It is interesting to note, however, that the site manager felt that residents relied on her for assistance, more often than the outreach worker.

## Conclusion

In summary, the conceptual framework that was created provided a systematic way to analyze the complex issues that managers encountered in the inner-city. It was most useful in identifying the various management priorities of each site and then relating those priorities to expenses. Because there are so many factors which influence operating expenses, it is difficult to draw conclusions from an overall cost comparison. It is possible, however, to use this framework to isolate the specific characteristics of a development and explain why the individual components of its costs may vary from those at other developments. Ultimately, this can lead to a more accurate initial estimation of operating budgets.

Although differences were observed at each site, a common theme that emerged from the research was the commitment of the individuals on staff to the provision of services despite the many complicating factors they encountered. While difficult to quantify the impact on cost, the importance of this commitment to the site operations cannot be emphasized enough. It is summarized by Blackman and Abrams in their book, Managing Low and Moderate Income Housing:

(Low income) housing management is more than rent collection and the supervision of maintenance, important as they may be. The flexible and critical element in management is people...Ultimately, the challenge of management lies not so much with the flexible use of the dollar as with the approach of management toward this task. <sup>24</sup>

This research highlighted the need not only to find the right people to manage inner-city properties, but to develop the appropriate staffing structure to support them. One of the key findings was the benefit of consolidating the management of smaller sites. This led not only to financial savings, but to enhanced service provision as well. It was

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<sup>24</sup>E.D. Abrams & E.B. Blackman, Managing Low and Moderate Income Housing, 1973, p. 7.

especially evident at the Salem Point and Phoenix developments where the demands of scattered sites and needy tenant populations were great. The framework helped to illustrate that these factors -- size, configuration, and tenant mix -- are interrelated and have a combined effect on the costs of managing a site. These relationships must be considered when evaluating the feasibility of managing specific sites.

Finally, the framework provides a starting point from which to study operating expenses at a broader level. Although much was learned from the analysis of three specific sites, a detailed study involving a larger sample and historic data on expenses would lead to even more valuable and conclusive findings. Ultimately, this research would help affordable housing managers in meeting the needs of their tenants within a very complicated environment.

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